

California Debt and Investment Advisory Commission

Fundamentals of Debt Financing

Role of the Financial Advisor



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What is a Financial Advisor's Key Role?

- ✓ ***To serve as an advocate for the issuer.***
- ✓ ***To provide the information necessary to make informed decisions.***
- ✓ ***To serve as a financial resource.***



Why use a Financial Advisor?

✓ Prior to a Financing:

- Prepare Plan of Finance***
- Develop structuring options***

✓ During a Financing:

- Coordinate the process***
- Serve as “Bond Market” expert***
- Provide pre- and post-pricing analyses***
- Bid the investment of bond fund proceeds***
- Protect issuer’s financial interest***



Financial Advisor Qualifications

- ✓ ***Experience with similar issuers***
- ✓ ***Expertise with type of assignment***
- ✓ ***Knowledge of financing techniques***
- ✓ ***Knowledge of the Bond Market***
- ✓ ***Technical competence***
- ✓ ***Availability of market resources***
- ✓ ***Ability to dedicate time and resources***



Financial Advisor Qualifications (cont.)

- ✓ ***Should be independent***

- ✓ ***Should be an individual or firm that:***
 - ***Understands your agency***
 - ***Respects your agency's philosophy***
 - ***Can guide you through the sale process***
 - ***You trust!***



When Do You Use a Financial Advisor?

- ✓ ***Special projects***
 - ***Debt profile/capital financing program review***
 - ***Studies/policy development***
 - ***Cash flow/debt capacity analyses***
- ✓ ***Bond financings***

The Financial Advisor is an independent and objective municipal bond industry expert.



Prepare Plan of Finance

✓ Establish objectives:

- ***Policies***
- ***Financial goals***

✓ Understand project scope:

- ***Cost***
- ***Timing***
- ***Source of debt repayment***

✓ Determine appropriate debt structure:

- ***Term***
- ***Debt capacity***
- ***Financing Vehicle***
 - ***Bond/COP/Note***
 - ***Fixed/variable rate***
 - ***Taxable/tax-exempt***
 - ***Insured/uninsured***
 - ***Current Interest/CAB***



Select Other Financing Participants

- ✓ ***Assist with the selection of financing team:***
 - ***Bond Counsel/Disclosure Counsel***
 - ***Underwriter (if negotiated)***
 - ***Trustee***
 - ***Credit Enhancer (optional)***
 - ***Printer***
 - ***Other Specialty Participants***
 - ***TAB: fiscal agent***
 - ***Refunding: verification agent***
 - ***CFD: appraiser/special tax consultant***



Determine Type of Sale

Negotiated or Competitive Sale

✓ ***Type of Sale depends on:***

- ***Issuer's market presence***
- ***Type of financing***
- ***Complexity of bond structure***
- ***Fixed vs. variable rate***
- ***Credit quality***
- ***Market conditions***
- ***Issue size***



Role in a Competitive Sale

The sale of an issue through a competitive bidding process. The winning underwriter is selected by submitting the best sealed bid according to the requirements specified in the published notice of sale.

- ✓ ***Coordinate bond structuring and issuance process***
- ✓ ***Facilitate the competitive bidding process***



Role in a Negotiated Sale

The sale of bonds whose terms and price are negotiated through an exclusive agreement with a previously selected underwriter.

✓ ***Use of Financial Advisor Varies***

- ***Coordinate bond sale process (role similar to competitive sale)***
- ***Assist in hiring financing team***
- ***Serve as pricing agent***
- ***Serve as bidding agent***



Role in Document Preparation

- Review legal documents/disclosure documents***
- Assist in preparation of the Preliminary Official Statement***
- For a competitive sale, draft or assist in the preparation of the Notice of Sale***
- Prepare rating agency/bond insurer presentations***



Role in The Ratings Process

- ✓ ***Determine appropriate rating agencies***
 - ***Defining nature of current and future requirements***
 - ***Consideration of investor perceptions***

- ✓ ***Develop a comprehensive strategy:***
 - ***Establish credit rating goals and objectives***
 - ***Analyze and understand regional factors***
 - ***Development of financial management policies***
 - ***Coordinate subsequent negotiations***

- ✓ ***Prepare Rating Agency Presentation(s)***



Role During Pre-Pricing

- ✓ ***Create an ongoing dialogue with bankers and underwriters (traders) including:***
 - ***Discussion of competing supply pressures, market volatility, and the economic calendar***
 - ***Reaching a consensus on scale and structure***
 - ***A review of market and rates in days leading to pricing***
 - ***Facilitating pricing calls as needed during the order period***
- ✓ ***Communicate pricing expectations to financing team including:***
 - ***An evaluation of the forward calendar***
 - ***An analysis of pricing performance of recent and similar issues***



Role in Post Sale

- ✓ ***Determine success of transaction***
 - ***Market indices***
 - ***Comparable financings***
- ✓ ***Evaluate success of the process***
 - ***Performance of individual firms***
 - ***Compensation of individual firms***
- ✓ ***Bid the Investment of Bond Funds***
- ✓ ***Prepare Pricing Book***



Compensation

✓ **Bond Issues**

- ***Pre-negotiated fixed fee based upon time involved, size and complexity of the financial advisory assignment***

✓ **Other Assignments**

- ***Fixed Fee***
- ***Hourly Fee/Capped***
- ***Retainer***
- ***Retainer with transaction fees***



Always Remember...

The Financial Advisor is your Friend!